

REVENUE

| Budget Summary | | | | | | FTE Position Summary | | | | |
|----------------|--------------------------|-------------------|-------------------|--|--------|----------------------|---------------|---------------|-------------------------|--------|
| Fund | 2010-11 Adjusted Base | Governor | | 2011-13 Change Over Base Year Doubled | | 2010-11 | Governor | | 2012-13 Over 2010-11 | |
| | | 2011-12 | 2012-13 | Amount | % | | 2011-12 | 2012-13 | Number | % |
| GPR | \$95,648,700 | \$91,107,800 | \$91,107,800 | - \$9,081,800 | - 4.7% | 892.73 | 848.28 | 848.28 | - 44.45 | - 5.0% |
| PR | 14,838,500 | 14,146,300 | 13,940,000 | - 1,590,700 | - 5.4 | 106.50 | 87.10 | 87.10 | - 19.40 | - 18.2 |
| SEG | <u>70,099,400</u> | <u>68,471,500</u> | <u>68,441,700</u> | <u>- 3,285,600</u> | - 2.3 | <u>115.20</u> | <u>100.70</u> | <u>100.70</u> | <u>- 14.50</u> | - 12.6 |
| TOTAL | \$180,586,600 | \$173,725,600 | \$173,489,500 | - \$13,958,100 | - 3.9% | 1,114.43 | 1,036.08 | 1,036.08 | - 78.35 | - 7.0% |

Budget Change Items

Departmentwide

1. STANDARD BUDGET ADJUSTMENTS

Governor: Provide adjustments of \$2,912,700 GPR, \$474,800 SEG, and -7.00 PR positions annually, and \$466,500 PR in 2011-12 and \$260,200 PR in 2012-13 as standard budget adjustments. Adjustments are for: (a) turnover reduction (-\$1,428,400 GPR and -\$122,800 SEG annually); (b) removing non-continuing elements from the base (-\$206,300 PR and -7.0 PR positions in 2011-12, and -\$412,600 PR and -7.0 PR positions in 2012-13); (c) full funding of continuing position salaries and fringe benefits (\$4,451,800 GPR, \$672,600 PR, and \$637,900 SEG annually); (d) full funding of lease and directed moves costs (-\$110,700 GPR, \$200 PR, and -\$40,300 SEG annually); and (e) minor transfers within the same alpha appropriation.

| | Funding | Positions |
|-------|----------------|-------------|
| GPR | \$5,825,400 | 0.00 |
| PR | 726,700 | - 7.00 |
| SEG | <u>949,600</u> | <u>0.00</u> |
| Total | \$7,501,700 | - 7.00 |

2. INCREASE EMPLOYEE CONTRIBUTIONS FOR PENSIONS AND HEALTH INSURANCE

Governor: Delete \$4,673,400 annually to reflect fringe benefit cost reductions associated with increased state employee contributions for Wisconsin Retirement System (WRS) benefits and health insurance coverage. The reductions would include \$3,825,700 GPR, \$402,200 PR, and \$445,500 SEG. The calculation of

| | |
|-------|------------------|
| GPR | - \$7,651,400 |
| PR | - 804,400 |
| SEG | <u>- 891,000</u> |
| Total | - \$9,346,800 |

retirement savings is based on employee WRS contributions equal to 5.8% of salary. Health insurance cost reductions are based on employees paying an average of approximately 12.6% of total premium costs, compared to the current average of approximately 6% of costs.

3. ELIMINATE LONG-TERM VACANCIES

Governor: Delete \$3,879,000 (all funds) and 71.35 positions annually to reflect the elimination of long-term vacant positions under the bill. The reductions would include \$2,470,900 GPR and 44.45 GPR positions, \$572,500 PR and 12.40 PR

positions, and \$835,600 SEG and 14.50 SEG positions annually. Funding and position reductions are associated with positions that have been vacant for 12 months or more.

| | Funding | Positions |
|-------|---------------|-----------|
| GPR | - \$4,941,800 | - 44.45 |
| PR | - 1,145,000 | - 12.40 |
| SEG | - 1,671,200 | - 14.50 |
| Total | - \$7,758,000 | - 71.35 |

4. FUNDING REDUCTIONS

Governor: Delete \$1,102,400 GPR and \$255,400 PR annually to reduce funding for supplies and services, and certain funding for permanent property and unallotted reserve, in the following appropriations: collection of state taxes, general program operations; administration of the county sales tax; business tax registration; debt collection; administration of liquor tax and alcohol beverages enforcement; collections by the department; collections from the financial records matching program; administration of income tax voluntary check-offs; state and local finance, general program operations; manufacturing property assessment; municipal finance report compliance; reassessments; administrative services and space rental, general program operations; expert professional services; services; and reciprocity agreement and publications (Minnesota).

| | |
|-------|---------------|
| GPR | - \$2,204,800 |
| PR | - 510,800 |
| Total | - \$2,715,600 |

5. MINOR TRANSFERS BETWEEN APPROPRIATIONS

Governor: Delete \$54,600 GPR and \$1,800 SEG annually, and provide \$56,400 PR annually to reflect: (a) adjusting space rental budgets for estimated costs in the next biennium; (b) realigning positions and funding to the correct program and appropriation; and (c) realigning budget authority between appropriations for proper accounting of costs for the Department's integrated tax processing system (WINPAS) and Financial Data Matching program.

| | |
|-------|-------------|
| GPR | - \$109,200 |
| PR | 112,800 |
| SEG | - 3,600 |
| Total | \$0 |

6. REPLACEMENT OF CLASSIFIED POSITIONS WITH UNCLASSIFIED POSITIONS

Governor: Delete 2.55 GPR and 0.45 SEG classified positions and provide 2.0 GPR and 0.45 SEG unclassified positions under DOR's administrative services, general program operations and lottery, general program operations appropriations.

Under 2011 Act 10, 38 classified positions were transferred into the unclassified service to

serve as division administrators. Act 10 also redefined "administrators" to include "other managerial positions determined by an appointing authority." The State Budget Office indicates that personnel from three separate employment areas (attorney services positions, communications positions, and legislative liaison positions) would be moved from classified to unclassified service within specified agencies. The revised unclassified positions would be renamed as either chief legal advisors, communications directors, or legislative advisors. Individuals in these unclassified positions would be at will employees appointed by the heads of the respective agencies.

The provisions in the 2011-13 biennial budget bill effectuate the intent of Act 10 in regards to the transfer of classified positions to unclassified positions as recommended by the Governor.

Tax Administration

1. CIGARETTE TAX STAMPS FUNDING INCREASE

| | |
|----|----------|
| PR | \$30,000 |
|----|----------|

Governor: Provide expenditure authority of \$15,000 annually to fund printing and shipping costs for cigarette tax stamps.

Wisconsin imposes an excise tax (generally \$2.52 per pack) on the sale of cigarettes. The tax is paid through the purchase of tax stamps from the Department of Revenue (DOR), typically by a manufacturer or distributor. The tax stamp must be affixed to each pack of cigarettes prior to its first sale in the state. Manufacturers and distributors receive a 0.7% discount on stamp purchases (or tax payments) as compensation for their administrative costs. Manufacturers and distributors are also charged by DOR for the costs of printing and shipping the stamps. Amounts collected by the Department are placed in a separate program revenue appropriation used to fund the printing and shipping costs.

Lottery Administration

1. LOTTERY SALES PROJECTIONS

Governor: Project lottery sales of \$480,385,700 in 2011-12 and \$480,056,700 in 2012-13. Projected lottery sales provide the basis for estimating the lottery property tax credit in the next biennium. In addition, the projected sales directly affect appropriations for retailer compensation and lottery vendor fees. The following table shows these projections, as well as 2009-10 actual lottery sales and 2010-11 estimated sales projected in October, 2010, for the

purposes of certifying the amount available for the 2010(11) lottery property tax credit. The Governor's 2011-13 projected sales are based on sales models utilized by DOR to estimate both on-line and instant ticket games.

Lottery Sales Projections
(\$ in Millions)

| <u>Game Type</u> | <u>Actual 2009-10</u> | <u>2010-11</u> | <u>2011-12</u> | <u>Percent Change from 2010-11</u> | <u>2012-13</u> | <u>Percent Change from 2011-12</u> |
|------------------|---------------------------|----------------|----------------|--|----------------|--|
| Scratch | \$269.3 | \$270.6 | \$270.6 | 0.0% | \$270.6 | 0.0% |
| Pull-tab | 3.9 | 4.0 | 4.0 | 0.0 | 4.0 | 0.0 |
| Lotto | <u>207.7</u> | <u>205.5</u> | <u>205.8</u> | 0.2 | <u>205.5</u> | -0.2 |
| Total | \$480.9 | \$480.1 | \$480.4 | 0.1% | \$480.1 | -0.1% |

**2. SUM SUFFICIENT APPROPRIATIONS FOR RETAILER
COMPENSATION AND VENDOR FEES**

| | |
|-----|---------------|
| SEG | - \$1,669,400 |
|-----|---------------|

Governor: Reduce funding by \$819,800 in 2011-12 and \$849,600 in 2012-13 to reestimate lottery sum sufficient appropriations for retailer compensation and vendor fees, as follows:

Retailer Compensation. Provide \$136,700 in 2011-12 and \$115,300 in 2012-13 to adjust base-level funding for retailer compensation, including payments to retailers under the retailer performance program, to reflect projected lottery sales in the 2011-13 biennium.

Basic retailer compensation rates under current law are 5.5% for lotto ticket sales and 6.25% for instant ticket sales. In addition, the retailer performance program provides an amount of up to 1% of for-profit sales as incentive payments to retailers (estimated at \$4.8 million in both 2011-12 and 2012-13, under the bill). Base level funding of \$33,607,800, established under 2009 Act 28, was based on estimated lottery sales of \$478.7 million in 2010-11. The lottery sales projections of \$480.4 million in 2011-12 and \$480.1 million in 2012-13 result in the increases to retailer compensation funding.

Vendor Fees. Reduce funding by \$956,500 in 2011-12 and \$964,900 in 2012-13 to adjust base-level funding for vendor fees to reflect projected lottery sales in the 2011-13 biennium and a lump-sum reduction in fees (\$1.0 million annually) from the vendor that took effect in 2009-10. Base level funding for vendor fees is \$12,158,300.

Vendor fees are paid under a major procurement contract for the provision of data processing services relating to both lotto and instant lottery games. The fees are calculated on the basis of a percentage of total ticket sales. Under the bill, vendor fees would total 2.3% of lottery ticket sales in both 2011-12 and 2012-13.

3. LOTTERY FUND CONDITION STATEMENT

Governor: The total revenue available for tax relief, minus a statutory reserve (2% of gross revenue), the amount appropriated for the lottery fund school levy tax credit, and lottery and gaming credit late applications payments, determines the amount available for the lottery and gaming tax credit. The following fund condition statement provides information on operating revenues, appropriated amounts for expenditures, estimates of interest earnings and gaming-related revenue, and the amounts available for tax relief credits under the bill. The bill would appropriate \$117,478,300 in 2011-12 and \$118,870,400 in 2012-13 for the lottery and gaming tax credit. [Due to a larger than anticipated opening balance, the certified amount of the lottery and gaming tax credit in 2010-11 is \$131,596,100.]

| | <u>2011-12</u> | <u>2012-13</u> |
|---|----------------|----------------|
| Fiscal Year Opening Balance | \$9,605,100 | \$9,611,700 |
| Operating Revenues | | |
| Ticket Sales | \$480,385,700 | \$480,056,700 |
| Retailer Fees and Miscellaneous | <u>198,500</u> | <u>239,600</u> |
| Gross Revenues | \$480,584,200 | \$480,296,300 |
| Expenditures | | |
| Prizes | \$281,799,100 | \$281,633,300 |
| Retailer Compensation | 33,744,500 | 33,723,100 |
| Vendor Payments | 11,201,800 | 11,193,400 |
| General Program Operations | 21,221,300 | 21,221,300 |
| Appropriation to DOJ | 373,100 | 373,100 |
| Appropriation to DOR | 276,900 | 276,900 |
| Miscellaneous Expenses | 26,200 | 26,200 |
| Program Reserves | <u>154,700</u> | <u>310,800</u> |
| Total Expenditures | \$348,797,600 | \$348,758,100 |
| Net Proceeds | \$131,786,600 | \$131,538,200 |
| Interest Earnings | \$502,300 | \$2,130,700 |
| Gaming-Related Revenue | \$192,900 | \$192,900 |
| Total Available for Tax Relief * | \$142,086,900 | \$143,473,500 |
| Appropriations for Tax Relief | | |
| Lottery and Gaming Tax Credit | \$117,478,300 | \$118,870,400 |
| School Levy Tax Credit (Lottery Fund) | 14,850,000 | 14,850,000 |
| Late Lottery and Gaming Credit Applications | <u>147,000</u> | <u>147,000</u> |
| Total Appropriations for Tax Relief | \$132,475,300 | \$133,867,400 |
| Gross Closing Balance | \$9,611,700 | \$9,605,900 |
| Reserve (2% of Gross Revenues) | \$9,611,700 | \$9,605,900 |
| Net Closing Balance | \$0 | \$0 |

* Opening balance, net proceeds, interest earnings and gaming-related revenue.

[Bill Section: 371]